

Cable
Text:

SIPDIS

CXAMMAN:

ACTION: USAID
INFO: POL ECON DCM AMB

DISSEMINATION: AID

CHARGE: PROG

APPROVED: AMB:DHALE
DRAFTED: ECON:PISANIKL
CLEARED: DCM:DR, FCS:LF, ECON:VC, TREASURY:GA, POL:CH

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PP RUEHC RUEHXK RUEATRS RUCPDOC RHEBAAA RUEAIIA
DE RUEHAM #1479/01 0941454
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FM AMEMBASSY AMMAN
TO RUEHC/SECSTATE WASHDC PRIORITY 7952
INFO RUEHXK/ARAB ISRAELI COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/USDOE WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY

CONFIDENTIAL SECTION 01 OF 02 AMMAN 001479

SIPDIS

STATE FOR NEA/ELA
STATE PASS TO USTR

E.O. 12958: DECL: 04/04/2017
TAGS: [ENRG](#) [EFIN](#) [ECON](#) [PGOV](#) [SOCI](#) [JO](#)
SUBJECT: LIBERALIZATION OF FUEL PRICES POSTPONED

REF: A. AMMAN 1410
B. 06 AMMAN 2525
C. 06 AMMAN 2496
D. 06 AMMAN 2452
E. 06 AMMAN 1986

Classified By: AMBASSADOR DAVID HALE FOR REASONS 1.4 (B) AND (D)

¶ 1. (C) Summary: As it prepares for municipal and parliamentary elections in the summer and fall of this year, the GOJ has deferred its earlier plan to completely eliminate oil subsidies and liberalize all fuel prices by March 2007. The Secretary General of the Finance Ministry privately lamented the decision to keep fuel prices at current rates as "a political move" to appease Parliament. Assuming a world crude oil price of \$60/barrel or lower, the GOJ planned to use net revenues earned mostly on sales of gasoline to off-set other fuel subsidies, yielding a zero net subsidy in the 2007 budget. However, recent hikes in the crude oil price over \$60/barrel are putting the GOJ in a difficult position, potentially costing millions and adding to the budget deficit. End Summary.

¶ 2. (C) Prices for oil products in Jordan have remained at the same level since the last increase in April 2006 (Ref B). As reported in reftels, the GOJ had planned to liberalize all fuel prices and eliminate oil subsidies by March 2007. During the January 29 closing of the budget debate in the lower house of Parliament, however, Prime Minister Marouf Bakheit announced that the government "understood" the impact of any actions it takes regarding fuel prices on citizens, industries, and manufacturing, and therefore, would not increase the prices of oil products in 2007. Ministry of Finance Secretary General Hamed Kasasbeh told Econoff and

U.S. Treasury Advisor in an April 1 meeting that this decision was a "mistake," and purely a political move to appease Parliament, which had threatened to reject the budget if the government increased end-user fuel prices or did not increase wages and salaries (now included in a budget annex to be reported septel).

¶ 13. (C) Kasasbeh said the decision to not increase fuel prices seemed tenable from a budgetary standpoint when world crude prices were declining. Based on a world crude price of \$60/barrel and current fuel rates in Jordan, Kasasbeh calculated that the GOJ would make 168 million JD (approximately US\$235 million) in net revenue on sales of all grades of gasoline and jet fuel. The GOJ planned to use those earnings to off-set 148 million JD (US\$207 million) in subsidies for Liquefied Petroleum Gas (LPG), diesel, kerosene, and fuel oil for electricity. Note: The additional 20 million JD (US\$28 million) was to be allocated to Jordan Petroleum Refinery Corporation to off-set differences in the cost of fuel reserves. End Note. Given that the revenue would have covered the subsidies, Jordan's 2007 budget includes no line-item for fuel subsidies. Comment: Further easing the fiscal pressure on the GOJ, Saudi Arabia provided significant new aid - \$300 million in cash - in 2006, although Jordan's commitment to ending its fuel subsidies was an important point in persuading the Saudis to be generous. End Comment.

¶ 14. (C) According to Kasasbeh, the world crude oil price would have ideally declined to the break-even points for each of the subsidized products, at which point they would have been liberalized. At \$53/barrel, he said the GOJ would break even on diesel and kerosene, and at \$43/barrel, the GOJ would break even on LPG, currently the most heavily subsidized fuel product in the country. Once liberalized, Kasasbeh confirmed that the GOJ would not reinstate subsidies, even if the price of crude went back up.

¶ 15. (U) Kasasbeh also noted that if the world crude price averaged \$60/barrel for the year and the GOJ had liberalized the prices for the subsidized products by March 31 while keeping the gasoline rates at the current level, the GOJ would have made an additional 80 - 90 million JD (approximately US\$112 - 126 million). Kasasbeh confirmed that any surplus would have gone into the "other revenue" category in the GOJ budget. Note: Per Ref D, the GOJ originally planned to liberalize all prices, including gasoline, and then add an excise tax to generate income for the GOJ. However, it seems the GOJ believed that keeping gasoline at the current price -- which the public is accustomed to -- is more politically palatable than imposing a tax on fuel products. End Note.

¶ 16. (C) Now that the GOJ is facing rising crude oil prices, Kasasbeh said that every dollar over \$60/barrel costs the GOJ 25 million JD (US\$35 million) per year, which may end up increasing the budget deficit. Should the crude price reach \$70/barrel, Kasasbeh said that the GOJ "would be in trouble."

¶ 17. (C) Comment: The zero line-item in Jordan's 2007 budget for fuel subsidies reflects what the GOJ thought would be a net wash, rather than actual expenditures and revenues. While the government may have thought it found a way to appease Parliament and the public by delaying increases in fuel prices without negatively affecting the budget, the decision may turn out to be extremely costly for the GOJ if world crude prices continue to climb this year. The GOJ has not yet indicated when it intends to complete implementation of its original price liberalization plan.

HALE